

Office of the President

TO MEMBERS OF THE COMMITTEES ON GOVERNANCE AND HEALTH SERVICES:

ACTION ITEM

For Meeting of November 19, 2015

UC HEALTH GOVERNANCE: AMENDMENT OF BYLAW 12.7: COMMITTEE ON HEALTH SERVICES AND STANDING ORDER 100.4: DUTIES OF THE PRESIDENT OF THE UNIVERSITY, AND ESTABLISHMENT OF POLICY ON COMMITTEE ON HEALTH SERVICES

EXECUTIVE SUMMARY

The President of the University proposes that the Committee on Governance recommend to the Regents that Bylaws 12.4 and 12.7 and Standing Order 100.4 be amended and a new Regents policy be adopted, as shown in Attachments 1, 2, and 3, respectively. Notice of the proposed amendments required pursuant to Bylaw 30.1 and Standing Order 130.1 was first provided at the Regents meeting of September 16, 2015.

The purpose of this proposal is to reform and enhance Regents' oversight of UC Health by providing the Committee on Health Services with the tools to effectively address challenges faced by the University's clinical enterprise and expected to be faced in the future, given the rapidly changing and increasingly challenging health care marketplace, and to take full advantage of opportunities as they arise, including through engaging experts knowledgeable about the healthcare industry and operation of hospitals and health systems generally.

In brief, the President proposes that the Committee on Health Services continue to exercise primary jurisdiction over the UC Health clinical enterprise, but that the composition of the Committee be modified to include six Regents including the President; the Executive Vice President – UC Health, two chancellors, a member of the Academic Senate, all of whom will be non-voting; and four additional non-voting expert members. Furthermore, the proposal describes new responsibilities and delegated authorities, updated to better reflect the roles and responsibilities of modern health system governing bodies.

RECOMMENDATION

The President of the University recommends that the Committee on Governance recommend that:

1. Bylaw 12.4 be amended, as shown in Attachment 1.

2. Bylaw 12.7 be amended, as shown in Attachment 2.
3. Standing Order 100.4 be amended, as shown in Attachment 3.
4. A new Policy on UC Health be adopted, as shown in Attachment 4, to implement the above changes.

BACKGROUND

Changes in the healthcare industry, including implementation of the Affordable Care Act and resulting industry consolidation, demands for increased efficiency, and evaporating commitment of public and private payers to underwrite the costs of medical education and research through enhanced payments to academic health centers, threaten the financial vitality of UC Health's clinical enterprise and the premier medical and other health professions schools it supports. In this rapidly changing environment, it is important to ensure that UC Health has an effective governance structure. To this end, at a special meeting in March 2015, the five UC medical center Chief Executive Officers (CEOs) presented to the Committee on Health Services some of the obstacles and drawbacks they perceive in the current structure for oversight of UC Health. The CEOs also observed that more governance engagement with respect to strategy and oversight is desirable, and that such engagement would be enhanced by the addition of external expertise in issues regarding the health system industry and related matters.

The Committee on Health Services was advised during the March 2015 meeting that UC Health had initiated an engagement to assess its governance structure and identify alternatives. Members of the Committee supported this project and charged UC Health to report its results at the July 2015 meeting. The resulting study identified seven criteria for assessing different governance models: 1) timeliness and efficiency; 2) expertise; 3) strategic guidance; 4) system-level effectiveness; 5) alignment across the three missions of research, education, and patient care; 6) responsiveness to local conditions; and 7) transaction costs and risks. The study analyzed the governance of other academic and non-academic health systems and its investigators interviewed the UC President, several Regents, chancellors, medical school deans, medical center CEOs, and the Executive Vice President – UC Health, as well as leaders of other academic health systems.

The final report identified four primary options for governance of UC Health: (i) continue with the status quo; (ii) create an advisory board (without delegated authority) to the existing Committee on Health Services; (iii) create a UC Health oversight board with delegated authority; and (iv) spin off UC Health as a separate entity. Using the seven criteria listed above to evaluate these options, the third option was recommended – creation of an oversight board comprised of sitting Regents, external individuals with appropriate expertise, and internal representatives.

The results of the study were presented to the Regents at the July 2015 meeting and discussed at length. A detailed proposal was developed for discussion at the September 2015 meeting, during which members of the Board provided substantial input. The revised proposal reflected in the attached amended Bylaws 12.4 and 12.7, new Standing Order 100.4(rr), and new Regents Policy, collectively summarized below, is based on the results of the July and September 2015

discussions, and further discussions with members of the UC administration and other stakeholders and experts.

PROPOSAL

Structure

Regents' governance of UC Health would continue through the Committee on Health Services. The Committee's composition, however, would be modified to include six Regents members and add eight *non-voting* members, as follows:

Voting Members

The voting members will be six Regents, including the President of the University and representatives of the Committees on Finance, Grounds and Buildings, and Compensation. The Committee's current Chair (Regent Lansing) will be reappointed to that role and serve an initial three-year term to ensure continuity during a period of transition.¹ The Committee's current Vice Chair (Regent Sherman) will also be reappointed to his current role.²

Non-Voting Members

The non-voting members will be eight individuals, including: (i) four external advisory members with expertise related to health care, academic health systems, mergers and acquisitions, and related fields; (ii) two chancellors from UC campuses with academic health systems; (iii) one member of the Academic Senate with a clinical appointment at a UC medical school; and (iv) the Executive Vice President – UC Health.

No other individuals would serve as members of the Committee in any capacity. However, nothing in this proposal would preclude the Student Observer from having the opportunity to participate in Committee meetings, if a Student Observer elects to do so consistent with the Student Observer program.

The Regent members other than the President of the University would be selected by the Regents, upon the recommendation of the Committee on Governance, in the same manner as that Committee nominates members of other committees. The non-voting members other than the Executive Vice President – UC Health would be recommended by the Committee on Governance and approved by the Regents, following the nomination of the President. The President will consult with the Executive Vice President – UC Health and, in the case of the Academic Senate member, the Chair of the Academic Senate.

¹ The special term will begin when the Committee is reconstituted.

² The Committee on Governance is expected to make appointments whose end-dates correspond with the terms of Regents serving on other committees.

Four Regents would constitute a quorum of the Committee. Non-voting members will not be considered for purposes of establishing a quorum to conduct business, nor will they count for purposes of establishing the majority required to approve an action presented to the Committee.

Existing policies governing compensation of Regents and reimbursement of expenses associated with their service would apply to all members of the Committee on Health Services: Committee members, including external advisory Committee members, would *not* receive salary or compensation in return for their service to the Committee, but would be eligible for reimbursement of expenses, consistent with Bylaw 8.1 and Regents Policy 1105 (or, in the case of members who are University employees, consistent with applicable University policies).

The Committee would meet regularly, typically off-cycle from regular Regents meetings, and could also convene special meetings. It would regularly apprise the Board of its activities.

The President or the Executive Vice President – UC Health may convene standing administrative committees to further support the work of UC Health. Notwithstanding Bylaw 8.3, members of the Committee on Health Services would be permitted serve on such standing administrative committees.

The limitation of voting members to Regents, the requirement that the Regent members include representatives of the Committees on Finance, Grounds and Buildings, and Compensation; the substantial reduction of the initial term of the Chair, the addition of an Academic Senate member, and the clarification concerning the Student Observer are proposed in direct response to input received during the September 2015 Regents meeting.

Committee Activities and Jurisdiction

The Committee on Health Services would exercise general oversight of the UC Health clinical enterprise. It would have primary responsibility for strategic plans and budgets for the University's clinical enterprise; patient care, quality, cost, and access; transactions, executive compensation as further described below; and various systemwide UC Health initiatives. The Committee's input would be required on capital projects affecting UC Health, but approval for those projects would continue to reside with the Committee on Grounds and Buildings. In addition, the Committee on Health Services could advise the full Board or other committees on other matters that have a significant impact on UC Health, but are not within that Committee's primary jurisdiction.

The proposal discussed at the September 2015 Regents meeting has been revised so that primary jurisdiction over capital projects – even those that involve only UC Health – remains with the Committee on Grounds and Buildings. UC Health capital project proposals will require endorsement by the Committee on Health Services prior to consideration by the Committee on Grounds and Buildings.

UC Health Transactions

The Regents would delegate to the Committee on Health Services and to the President of the University expanded authority to approve, without further Regents action, certain healthcare transactions up to the following limits.

- The President, with the relevant chancellor, could approve transactions with a cost or value (including cash, debt, and other commitments) of 1.5 percent of the sponsoring health system's annual revenues, up to a maximum of \$25 million, subject to the review and approval of the Chair or the Vice Chair of the Committee on Health Services. For the current year, this would be: \$13.605 million for UC Irvine Health, \$21.360 million for UC San Diego Health, and \$25 million each for UC Davis Health, UCLA Health and UCSF Health. Transactions involving more than one health system would require Committee action.
- The Committee on Health Services, with the President and the relevant chancellor, could approve transactions with a cost or value of three percent of the sponsoring health system's annual revenues, up to a maximum of \$50 million. For the coming year, this would be: \$27.210 million for UC Irvine Health, \$42.720 million for UC San Diego Health, and \$50 million each for UC Davis Health, UCLA Health and UCSF Health.
- The above thresholds would be subject to annual cumulative limits (i.e., limits applicable to all transactions approved through these delegations during a fiscal year) of three percent of annual revenues for Presidential/chancellor approval with Chair or Vice Chair review and approval, subject to a cap of \$50 million, and five percent of annual revenues for Committee approval.

The President expects to delegate her authority to execute UC Health transactions subject to the delegated authority described above jointly to the Executive Vice President – UC Health and the Chancellors. Thus, transactions proposed by the CEOs and approved under this authority will require approval of the President or Executive Vice President – UC Health and the relevant Chancellor, and review and approval by the Chair or Vice Chair of the Committee on Health Services.

The proposed delegations are summarized in the table below, which reflects fiscal year (FY) 2015 revenues.

		UCD	UCI	UCLA	UCSD	UCSF ²	Total
Total Operating Revenue FY15		\$1.693 BB	\$907 MM	\$2.167 BB	\$1.424 BB	\$3.084 BB	\$9.275 BB
Per Transaction Thresholds* (\$ Thousands)							
Level I (President/Chancellor with HSC Chair or Vice Chair Review and Approval) ⁺	1.5%	\$ 25,000	\$ 13,605	\$ 25,000	\$ 21,360	\$ 25,000	n/a
Level II (HSC & President/Chancellor) [^]	3.0%	\$ 50,000	\$ 27,210	\$ 50,000	\$ 42,720	\$ 50,000	n/a
Level II (HSC) – <i>current</i>		\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	
Per Annum Thresholds* (\$ Thousands)							
Level I (President/Chancellor with HSC Chair or Vice Chair Review and Approval) [^]	3.0%	\$ 50,000	\$ 27,210	\$ 50,000	\$ 42,720	\$ 50,000	n/a
Level II (HSC & President/Chancellor)	5.0%	\$ 84,650	\$ 45,350	\$ 108,350	\$ 71,200	\$ 154,200	\$ 463,750
Level II (HSC) – <i>current</i>		\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000
² Includes UCSF (\$2.580 billion) and Children's Hospital & Research Center at Oakland (\$504 million)							
* Threshold is defined as the level up to which the authorities in parentheses are authorized to make a decision. Transactions involving more than one UC health system require Committee (or Regents, depending on valuation) review and approval. Transactions above Level II would continue to require full Regents review and approval.							
⁺ 1.5% or \$25 million, whichever is lesser							
[^] 3.0% or \$50 million, whichever is lesser							

The above thresholds, which are based on the revenues reflected in the medical centers' most recent financial statements, are described in the new Regents policy attached to this item and would be reviewed annually by the Committee on Health Services. The value of an individual transaction would be determined as provided in the new Regents policy. The Chief Financial Officer may recommend or enact additional policies or guidelines to facilitate accurate and consistent valuations.

Notwithstanding the above thresholds, the President would present for approval to the Committee on Health Services, and then to the full Board at the Committee's request, any transaction that, in her judgment or the judgment of a sponsoring chancellor, creates a material reputational risk to the University or represents a significant policy initiative, or any transaction that involves more than one medical center.

The proposal discussed at the September 2015 Regents meeting has been revised so that Level I transactions require the review and approval of the Chair or Vice Chair of the Committee on Health Services and that, notwithstanding the thresholds, transactions that involve more than one medical center must be reviewed and approved by the Committee on Health Services.

UC Health Capital Projects

The Committee on Grounds and Buildings will retain primary jurisdiction for capital projects requiring Regents or Committee approval. For UC Health capital projects, the project will go first to the Committee on Health Services and, if the Committee on Health Services recommends moving forward, it will be considered by the Committee on Grounds and Buildings for action.

This represents a material change to the original proposal, which recommended that the Committee on Health Services assume primary jurisdiction for these projects.

Compensation

To the extent appointment and compensation of certain UC Health employees might otherwise require approval of the Regents or any of its committees, the Committee on Health Services would be delegated such authority, to be exercised consistent with a benchmarking framework reviewed and approved by the Committee on Compensation and Committee on Health Services. This delegation would extend only to senior leaders whose incomes are derived exclusively from sources other than the State General Fund. For individuals whose incomes are supported in whole or in part by the State General Fund, the Committee on Health Services could make recommendations to the Committee on Compensation for that Committee to make recommendations to the full Board.

The proposal discussed at the September 2015 Regents meeting has been revised so that the Committee on Compensation also reviews and approves the benchmarking framework

Staff Reports

The Committee would oversee development of dashboards assessing quality of care, cost of service, and access to care across the UC Health clinical enterprise – inclusive of the Student Health and Counseling Centers, and would use the dashboards to monitor performance against established benchmarks.

The Executive Vice President – UC Health or his designee would brief the Committee on all systemwide managed care arrangements negotiated by his office on behalf of the UC Health clinical enterprise.

Committee Reports

The Committee on Health Services would report annually on UC Health’s strategic plan and budget and on other significant activities and accomplishments, including on the status of the University’s Student Health and Counseling Centers and the UC Student Health Insurance Plan (“UC SHIP”). The Committee would report in writing on any actions it takes pursuant to its delegated transactions, capital projects, and compensation authorities to the Board at the Board’s next regularly scheduled meeting. The Committee would annually review and assess the transactions approved during the previous three years and report to the Board on its assessment.

The proposal discussed at the September 2015 Regents meeting has been revised to require Committee reports on the status of the University’s Student Health and Counseling Centers and the UC SHIP program and an annual review of transactions approved during the previous three years.

Effect on Existing Bylaws and Standing Orders

Bylaw 12.7, as amended, would prevail over any conflicting provision of the Bylaws, Standing Orders, and Regents Policies.

Transition Provisions

The proposal, if adopted would be implemented as soon thereafter as practicable. The Committee would be reconstituted consistent with the provisions of the proposal including the transition provisions summarized below as soon as practicable thereafter.

The Chair and Vice Chair of the Committee as it was approved by the Board in May 2015 would continue in such capacity. The initial term of the Chair would be three years once the full Committee is impaneled.

The transition provisions have been revised to substantially reduce the initial term of the Chair. Terms for all other members would be consistent with current Bylaws, Standing Orders, and Policies.

Key to Acronyms

CEO	Chief Executive Officer
FY	fiscal year
HSC	Committee on Health Services

Attachments:

- Attachment 1: Bylaw 12.4
- Attachment 2: Bylaw 12.7
- Attachment 3: Standing Order 100.4
- Attachment 4: Policy on UC Health